

PROPOSED RESOLUTION

Resolution W-5161
Water Division

Agenda ID #16350

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION W-5161

March 22, 2018

RESOLUTION

(RES. W-5161) HAT CREEK WATER COMPANY. ORDER
AUTHORIZING A GENERAL RATE INCREASE TO
PRODUCE ADDITIONAL ANNUAL REVENUES OF
\$18,621, OR 52.9%, FOR TEST YEAR 2018, TO BE PAID BY
THE RATEPAYERS.

SUMMARY

By Advice Letter 30-W, filed on November 15, 2017, Hat Creek Water Company seeks to increase its gross annual revenues by \$17,266, or 49.1%, for Test Year 2018. Hat Creek Water Company's rate increase request is based upon an increase in operating expenses.

For Test Year 2018, this resolution grants Hat Creek Water Company an increase in gross annual revenues of \$18,621, or 52.9%, which is estimated to provide total annual revenues of \$53,800 based on a Rate of Margin (ROM) of 23.87%. The monthly bill for an average customer with a 5/8 x 3/4-inch metered residential customer using 10 CCF per month would increase from \$33.07 to \$53.43, or 61.6%.

BACKGROUND

Hat Creek Water Company (Hat Creek) is a Class D water utility that has requested authority under General Order 96-B, General Rule 7.6.2, Water Industry Rule 7.3.3(5), and Public Utilities Code Section No. 454 to increase its water rates by \$17,266 or 49.1%, for Test Year (TY) 2018.

The last general rate increase (GRC) was granted on May 7, 2015, pursuant to Resolution (Res.) W-5020, which authorized a rate increase of \$15,561, or 71.0%, resulting in a Rate of Margin of 21.69% for TY 2015. The present rates became effective on August 31, 2017, pursuant to the approval of Advice Letter (AL) 29-W, which granted a Consumer Price Index (CPI) increase of 2.1%.

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Hat Creek is a class D water utility owned by John Parrish, who provides overall management, engineering, and maintenance services. Mr. Parrish is a Grade D1 Water Distribution Operator and a Grade T2 Water Treatment Operator. In addition to providing technical operations for the utility, Mr. Parrish is responsible for accounts receivable, billings, banking, bookkeeping, and customer relations. Hat Creek serves 63 metered customers in the area known as Rim Rock Ranch and vicinity, located in the community of Old Station, Shasta County. A total of 53 customers have 5/8" x 3/4" meters.

The sole water source is surface water out of Hat Creek, for which the utility has diversion rights assigned by the State Water Resources Control Board. All of the water is treated through a filtration system pre and post-chlorination, plus an injection coagulant. The water is then transported to a 100,000 gallon storage tank (bolted steel) via a 4-inch supply line 1,800 feet to the storage tank. A 6-inch (gravity fed) supply line carries the water into the distribution system.

There are four 1-inch customers, which include the Forest Service Camp Ground, the Forest Service Visitor Center, the Cascade Showers/laundry mat facility, and the fourth being a resident. The 1-1/2-inch meter serves the Rim Rock Ranch Resort, which closes during the winter. The two 2-inch meters serve the Forest Service Work Center and the Forest Service Camp Ground, which is, per agreement, charged at the 1-inch meter charge. Lastly, the 3-inch meter is provided for Cal-Trans. The number of customers is not expected to change in the upcoming years, so Hat Creek estimates no additional customers for TY 2018.

NOTICE AND PROTESTS

A notice of the proposed rate increase was mailed to all customers. In this public notice, all customers were informed of the 49.1% increase in revenues and the new rates. A copy of the notice was mailed to each customer on January 6, 2018. No protests or comments have been received.

DISCUSSION

The Water Division (Division) made an independent analysis of Hat Creek's rate increase request. Appendix A shows Hat Creek's and the Division's estimates of the summary of earnings at present, requested, and recommended rates. Division is in concurrence with Hat Creek's estimates in operating revenues, expenses, and rate base.

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Division reviewed operating revenues and expenses including employee labor, materials, contract work, water testing, transportation expenses, other plant maintenance, office salaries, office supplies and expenses, insurance, general expenses, depreciation, and taxes other than income. Division verified the operating expenses by reviewing supporting documents for substantiation and accuracy, and included the amounts that were deemed reasonable and prudent. The ratebase and the adopted quantities contained in Appendix D are also updated to reflect TY 2018.

Operating Revenues

Hat Creek's operating revenues consist of general metered sales. There are currently 63 active service connections. For the TY, Hat Creek does not expect to add or lose any customers. A review of the past recorded numbers of customers during the past five years indicates there has been essentially no change in the number of customers, therefore, Division concurs with the utility's estimate of customers and revenues at present rates.

Operating Expenses

Hat Creek and the Division concur with the estimates for operating expenses based upon the recorded operating expenses from the 2014, 2015, and 2016 annual reports. Hat Creek applied a three-year average, and then applied the appropriate labor and non-labor inflation rates to each category for 2017 and TY 2018. In the previous GRC, and in the adopted summary of earnings in Resolution W-5020, Hat Creek neither requested, nor estimated, expenses for any of the following:

	<u>Adopted 2015</u>	<u>TY-2018</u>
• Other volume related expenses	\$0	\$2,906
• Employee labor	\$0	\$3,900
• Water testing	\$0	\$1,948
• Office salaries	\$0	\$1,455
• Employee benefits	\$0	\$1,900
• Uncollectibles expense	\$0	\$12

However, in its AL 30 and its supporting workpapers, Hat Creek applied the appropriate amounts recorded in its annual reports and estimated using the forecasting methods discussed above.

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Hat Creek has received grants, principally for a new treatment system, that have resulted in significant improvements for the water system. While the plant facilities are in good condition, they are mostly contributed or fully depreciated plant. For quite some time, and in an effort to keep rates low in the community, Mr. Parish has elected to forgo management salaries, employee labor, and other expense items commonly associated in operating expenses for Class D water utilities in similar scope and size. In addition, Mr. Parish is nearing retirement, and the successor and/or future manager or owner will need to both be compensated and meet such reasonable operating expenses accordingly.

As a result, this arrangement has kept net revenues low; however, this business model is not sustainable, and it has come to the point where Hat Creek should record expenses in these accounts, especially if Mr. Parish retires and/or hires an operator to assist in system operation. The Division finds it reasonable that the modest amounts proposed for employee labor, office salaries, and employee benefits are fully warranted.

Prior to 2016, and in the previous GRC, Other Volume Related expenses (USOA 618) were embedded into the General Expenses category. Similarly, Water Testing expenses were embedded into Contract Work – Others (USOA 650). Beginning in 2016, with the assistance of an accounting consultant, both Other Volume Related and Water Testing expenses were reallocated accordingly into their appropriate line items.

Uncollectibles, monies not received or shortfalls, were relatively low and were recorded as zero in both the 2014 and 2015 annual reports. Beginning in 2016, with the assistance of an accounting consultant, Hat Creek was advised to record \$35 in unaccounted for revenues. Using the forecasting method described above, Hat Creek took a three year average (2014 through 2016), and escalated accordingly to estimate Uncollectibles for TY 2018.

Plant Additions and Ratebase

There have been no additions to plant or ratebase since the previous GRC.

Rate of Return vs. Rate of Margin

Hat Creek has requested a ROM of 23.87%. Two methods are available for the Division to utilize in the rate-making process: (1) ROR and (2) ROM. In Res. W-4524 (March 17, 2005), the Commission adopted a revised set of standard practices for determining the profit for Class C and D water utilities using the rate of return and rate of margin

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methods. Both methods are to be used. Per Decision 92-03-093, dated March 31, 1992, Division must recommend the method that produces the higher revenues. In the ROM method, the utility's revenue requirement is defined as the sum of its operating and maintenance expenses, depreciation, income and other taxes, multiplied by the ROM. This method gives the small water utilities the opportunity to earn a more reasonable and appropriate revenue requirement when the utility has "little rate base". If only the ROR method was used, a utility with little or no ratebase would earn little or no return. The Division recommended ROR is 10.50% to 11.50% for a Class D, 100% equity-financed utility. Division has recommended a ROM of 23.87% for Class D water utilities.¹ Applying a ROR of 11.50% yields a net income of \$334 versus a \$10,368 when applying a ROM. This comparison of the two methods indicates that the ROM method produces a higher revenue requirement; therefore, Division recommends the ROM method at 23.87%.

Taxes

Due to changes in the Federal tax rates, Division applied a 21% flat tax rate. In its filing, Hat Creek applied a 15% Federal tax rate to the first \$50,000 of income. Accordingly, the Federal income tax expense increased from \$1,783 to \$2,756 for Test Year 2018.

Comparison of Water Bills

Class D utilities are authorized by Decision 92-03-093 to request to recover *up to* 100% of fixed costs in the service charge. Hat Creek requested this rate structure in its filing, and the Division concurs. Hat Creek's present rate structure consists of one schedule: Nos. 1 – General Metered Service. The rates proposed by the Division are shown in Appendix B. At Division's recommended rates shown in Appendix B, the monthly bill for an average customer with a 5/8 x 3/4-inch metered residential customer using 10 CCF per month would increase from \$33.07 to \$53.43, or 61.6%. A comparison of customer bills at present and recommended rates is shown in Appendix C. The Adopted Quantities and Tax Calculations are shown in Appendix D.

Affordability of Proposed Rates

At Division's recommended rates shown in Appendix B, the average bill for a 5/8 x 3/4-inch metered residential customer consuming 10 CCF per month would increase from

¹ Water Division Memorandum entitled "Rates of Return and Rates of Margin for Class C and Class D Water Utilities" dated February 4, 2017

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\$33.07 to \$53.43, or 61.6% in TY 2018. Hat Creek Water Company is located in the 96071 zip code in Shasta County, near the town of Old Station, where the annual median household incomes (MHI), respectively for the zip code, county and town are \$37,061, \$36,791 and \$45,582² The proposed rate, accordingly, would be 1.74%, 1.75% and 1.41% of the respective MHIs.

It should be noted that no affordability criteria has been developed and adopted in any Commission Decision or Resolution. However, in October 2017, the Health and Safety Code in the California Code of Regulations (Sec. 116760.50) was amended to establish an affordability threshold of 1.5% of MHI for average water bills in Severely Disadvantaged Communities, as defined (60% of California Statewide MHI of \$60,818, or \$37,091)³. While the Commission adheres to cost-of-service regulatory principles in developing rates for its jurisdictional utilities, and the Division's recommended rates for Hat Creek Water are a minimum to satisfy the utility's technical, managerial and financial capacity and operational capability, the discussion regarding affordability is presented, nonetheless, to indicate to the Commission the relationship between the proposed rates and local economic circumstances.

Balancing Accounts

Hat Creek currently has no pending or outstanding balancing accounts.

SAFETY

Hat Creek meets all applicable drinking water quality standards as required by the State Water Resources Control Board, Division of Drinking Water (SWRCB).

There are no fire districts within the service area and Hat Creek has provided Division with the locations and technical specifications of the five hydrants throughout the service area. Hydrants are flushed once annually and inspected during the fall season to ensure they are drained appropriately to prevent freezing.

The water treatment plant is monitored on a daily basis, either by remote computer or manually. Since this is a one-person operation, the level of safety is a high priority for the utility owner.

² Income by Zip Code – California - 96071

³ See Assembly Bill 560 (Salas); Chaptered by Secretary of State on October 7, 2017 – Chapter 552, Statutes of 2017.

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COMPLIANCE

Hat Creek has no outstanding compliance orders and has been filing annual reports as required. Hat Creek meets all applicable drinking water quality standards as required by the SWRCB.

COMMENTS

This is an uncontested matter that pertains solely to a water corporation. Accordingly, pursuant to Public Utilities Code Section 311(g)(3), this resolution is exempt from the 30-day period for public review and comment.

FINDINGS

1. The Summary of Earnings (Appendix A) recommended by the Water Division (Division) is reasonable and should be adopted.
2. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the recommendations of the Division are reasonable and should be adopted.
4. The water rate increase authorized herein is justified and the resulting rates are just and reasonable.
5. Hat Creek Water Company should be allowed to file a Tier 1 advice letter to supplement to Advice Letter No. 30 to incorporate the rate schedules (Appendix B), and to concurrently cancel its presently effective Rate Schedules. The effective date of the revised rate schedule should be 5 days after the date of filing.
6. This is an uncontested matter subject to the public notice comment exclusion provided in the PU Code Section 311(g)(3).

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THEREFORE, IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code, Section 454, for Hat Creek Water Company to file a supplement to Advice Letter No. 30 to incorporate the rate schedules (Appendix B), and to concurrently cancel its presently effective Rate Schedules. The effective date of the revised rate schedule shall be 5 days after the date of filing. This advice letter shall become effective upon approval by Staff of the Division of Water and Audits.
2. Hat Creek Water Company is authorized to increase the Test Year 2018 water revenues by \$18,621 or 52.9%.

This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on March 22, 2018; the following Commissioners voting favorably thereon:

ALICE STEBBINS
Executive Director

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APPENDIX A HAT CREEK WATER COMPANY Summary of Earnings – Test Year 2018

	Utility Estimated Rates		Division Rates	Recommended Rates
	Present	Requested	Present	
<u>Operating Revenue</u>				
General Metered Revenue	\$35,179	\$52,445	\$53,800	\$53,800
General Unmetered Revenue	\$0	\$0	\$0	\$0
Reclaimed Water Sales	\$0	\$0	\$0	\$0
Private Fire	\$0	\$0	\$0	\$0
Other Water Revenue	\$0	\$0	\$0	\$0
Other Unmetered Revenue	\$0	\$0	\$0	\$0
Total Revenue	\$35,179	\$52,445	\$53,800	\$53,800
<u>Operating Expenses</u>				
610 Purchased Water	\$0	\$2,245	\$0	\$2,245
615 Purchased Power	\$3,044	\$2,816	\$3,044	\$2,816
618 Other Volume Related Expenses	\$0	\$2,906	\$0	\$2,906
630 Employee Labor	\$0	\$3,900	\$0	\$3,900
(Labor Capitalized)	\$0	\$0	\$0	\$0
640 Materials	\$3,133	\$2,001	\$3,133	\$2,001
650 Contract Work	\$4,343	\$1,603	\$4,343	\$1,603
Water Testing	\$0	\$1,948	\$0	\$1,948
660 Transportation Expenses	\$950	\$1,028	\$950	\$1,028
664 Other Plant Maintenance	\$1,977	\$2,348	\$1,977	\$2,348
670 Office Salaries	\$0	\$1,455	\$0	\$1,455
671 Management Salaries	\$4,800	\$4,989	\$4,800	\$4,989
674 Employee Benefits	\$0	\$1,900	\$0	\$1,900
676 Uncollectibles Expense	\$0	\$12	\$0	\$12
678 Office Services & Rentals	\$0	\$0	\$0	\$0
681 Office Supplies & Expenses	\$2,740	\$2,489	\$2,740	\$2,489
682 Professional Services	\$255	\$892	\$255	\$892
684 Insurance	\$2,600	\$2,646	\$2,600	\$2,646
688 Regulatory Commission Expense	\$0	\$131	\$0	\$131
689 General Expenses	\$5,262	\$3,887	\$5,262	\$3,887
Total Expenses	\$29,104	\$39,195	\$29,104	\$39,195
Depreciation	\$0	\$0	\$0	\$0
Taxes other than Income	\$669	\$208	\$669	\$208
State Income Tax	\$800	\$1,153	\$800	\$1,273
Federal Income Tax	\$0	\$1,783	\$0	\$2,756
Total Deductions	\$30,573	\$42,339	\$30,573	\$43,432
Net Revenue	\$4,606	\$10,106	\$4,606	\$10,368
<u>RATE BASE</u>				
Utility Plant	\$955,815	\$953,365	\$955,815	\$953,365
Construction Work in Progress	\$0	\$0	\$0	\$0
Materials and Supplies	\$1,029	\$2,001	\$1,029	\$2,001
Working Cash	\$2,409	\$3,266	\$2,409	\$3,266
Accumulated Depreciation	\$955,815	\$955,815	\$955,815	\$955,815
Advances for Construction	\$0	\$0	\$0	\$0
Contributions in Aid of Construction	\$0	\$0	\$0	\$0
Deferred Income Taxes	\$0	\$0	\$0	\$0
TOTAL RATE BASE	\$3,438	\$3,266	\$3,438	\$3,266
Rate of Margin (ROM)				23.87%

END OF APPENDIX A

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APPENDIX B HAT CREEK WATER COMPANY

Schedule No. 1
GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The area known as Rim Rock Ranch, Unit No. 1, and vicinity, located near the community of Old Station, Shasta County.

RATES

Quantity Rate:

All Water used per 100 cu.ft	\$2.01	(I)
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Service Charge:

Per Meter Per Month

For	5/8 x 3/4 inch meter	\$ 33.35	(I)
For	3/4-inch meter	\$ 52.02	(I)
For	1-inch meter	\$ 83.36	(I)
For	1-1/2-inch meter	\$166.73	(I)
For	2-inch meter	\$266.76	(I)
For	3-inch meter	\$500.18	(I)

The Service Charge is a readiness-to-serve charge which is applicable to metered service and to which is to be added monthly charge computed at the Quantity Rate.

SPECIAL CONDITIONS

1. In the event that a customer terminates service under this schedule and reinstates service at the same location, there will be a reconnection charge equal to the minimum charge which would have been billed had the customer not terminated service.
2. All bills are subject to the reimbursement fee set forth on Schedule No. UF

END OF APPENDIX B

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APPENDIX C HAT CREEK WATER COMPANY

Comparison of Rates
Test Year 2018

METERED SERVICE	Per Service Connection Per Month		
	Present <u>Rates</u>	Proposed <u>Rates</u>	Percent <u>Increase</u>
Service Charge:			
For 5/8 x 3/4 - inch meter	\$21.47	\$33.35	55.3%
Quantity Charge:			
All water, per 100 cu. ft.	\$1.16	\$2.01	73.2%

Comparison of a monthly typical bill for residential metered customers with a 5/8 x 3/4 - inch meter is shown below at current rates and recommended rates for Test Year 2014.

Usage 100 cu. ft.	Present Rates	Recommended Rates	Percent of Increase
0	\$21.47	\$33.35	55.3%
5	27.27	43.39	59.1%
10 (avg.)	33.07	53.43	61.6%
15	38.87	63.48	63.3%
20	48.15	73.52	52.7%
30	56.27	96.61	66.4%

END OF APPENDIX C

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APPENDIX D (Page 1/2) HAT CREEK WATER COMPANY ADOPTED QUANTITIES Test Year 2018

Expenses:

1. Purchased power (Electric)

Total cost (\$)	\$2,816
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2. Purchased Water \$2,245

3. Insurance Expense \$2,646

4. Number of Service Connections:

Metered Rate

5/8 x 3/4 inch meter	54
3/4-inch meter	0
1-inch meter	6
1-1/2 inch meter	1
2-inch meter	1
3-inch meter	<u>1</u>

Total	<u>63</u>
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5. Total Water Sales-Metered Customers 11,116 Ccf

(cont.)

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APPENDIX D (Page 2/2) HAT CREEK WATER COMPANY ADOPTED QUANTITIES Test Year 2018

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenue	\$53,800	\$53,800
2.	O & M Expenses	\$39,195	\$39,195
3.	Taxes Other Than Income	\$ 208	\$ 208
4.	Depreciation and Interest	\$ 0	\$ 0
5.	Taxable Income for State Tax	\$14,397	
6.	State Tax	\$1,273	
7.	Taxable Income for FIT		\$13,124
8.	Federal Income Tax		\$2,756
9.	Total Income Tax		\$4,029
California Corporate Franchise Rate		8.84%	
Federal Income Tax Rate			
	Flat Rate	21%	

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HAT CREEK WATER COMPANY ADVICE LETTER NO. 30 SERVICE LIST

Board of Supervisors
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